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## **Background on Drug Company Pricing Fraud**

### **How Drug Fraud Harms Arizona Consumers**

The pricing scheme used by the drug companies named in the Arizona Attorney General's lawsuit costs Arizona taxpayers hundreds of millions of dollars, and is jeopardizing public health by diverting necessary funds away from patient care.

### **How Drug Companies Set Up the Pricing Scheme**

By falsely inflating their reported prices, the companies created huge spreads between the actual cost of the drugs to health care providers and the reimbursement rates paid to those providers by AHCCS, Medicare, and third party insurers.

The motive behind these exaggerated spreads was to grab greater market share. Drug manufacturers used these "spreads" as a marketing tool to both retain existing customers and to lure business away from competitors. The goal was to entice health care providers to use one manufacturer's product over a competitor's.

AHCCS, Medicare, and third party payors rely on pricing data supplied by the drug manufacturers. Companies give prices to industry publications such as "Red Book," "Medispan," or "First DataBank." These third party publications publish the data based on information received from the pharmaceutical manufacturers.

The drug manufacturers provide the false and misleading information to these trade publications with full knowledge that reimbursers will rely on this information.

By falsely inflating their reported prices, the drug companies created huge "spreads" between the actual cost of the drugs to health care providers and the reimbursement rates paid to those providers by Medicare, insurers, and other payors. The following chart provides examples of how the pricing scheme works.